

**REPORT OF THE AUDIT OF THE
ELLIOTT COUNTY
SHERIFF'S SETTLEMENT - 2005 TAXES**

MAY 5, 2006

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To the People of Kentucky

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Honorable Ronnie Stephens, Elliott County Sheriff

Members of the Elliott County Fiscal Court

Independent Auditors' Report

We have audited the Elliott County Sheriff's Settlement – 2005 Taxes as of May 5, 2006. This tax settlement is the responsibility of the Elliott County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States and the Audit Guide for Sheriff Settlement Audits issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepares the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the financial statement referred to above presents fairly, in all material respects, the Elliott County Sheriff's taxes charged, credited, and paid as of May 5, 2006, in conformity with the modified cash basis of accounting.

Honorable Ernie Fletcher, Governor

John R. Farris, Secretary

Finance and Administration Cabinet

Honorable Charles Pennington, Elliott County Judge/Executive

Honorable Ronnie Stephens, Elliott County Sheriff

Members of the Elliott County Fiscal Court

In accordance with Government Auditing Standards, we have also issued our report dated August 1, 2006, on our consideration of the Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Sheriff's Office Lacks Adequate Segregation Of Duties

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
August 1, 2006

ELLIOTT COUNTY
RONNIE STEPHENS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES

MAY 5, 2006

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 135,391	\$ 191,714	\$ 433,252	\$ 141,890
Tangible Personal Property	3,182	4,009	11,863	6,455
Intangible Personal Property				3,639
Fire Protection	2,537			
Increases Through Exonerations	134	190	430	146
Franchise Corporation	32,550	39,461	104,891	
Oil and Gas Property Taxes	2,561	3,626	8,195	2,684
Bank Franchises	9,311			
Penalties	1,534	2,120	4,885	1,479
Adjusted to Sheriff's Receipt	361	499	1,352	967
Gross Chargeable to Sheriff	<u>\$ 187,561</u>	<u>\$ 241,619</u>	<u>\$ 564,868</u>	<u>\$ 157,260</u>
<u>Credits</u>				
Exonerations	2,267	3,167	7,308	2,754
Discounts	1,974	2,474	5,617	1,910
Delinquents:				
Real Estate	6,657	9,324	21,071	6,901
Tangible Personal Property	36	44	133	129
Total Credits	<u>\$ 10,934</u>	<u>\$ 15,009</u>	<u>\$ 34,129</u>	<u>\$ 11,694</u>
Taxes Collected	\$ 176,627	\$ 226,610	\$ 530,739	\$ 145,566
Less: Commissions *	7,794	9,338	21,230	6,474
Taxes Due	\$ 168,833	\$ 217,272	\$ 509,509	\$ 139,092
Taxes Paid	168,202	216,388	507,528	138,439
Refunds (Current and Prior Year)	643	904	2,035	669
Due Districts or (Refunds Due Sheriff) as of Completion of Fieldwork	<u>\$ (12)</u>	<u>\$ (20)</u>	<u>\$ (54)</u>	<u>\$ (16)</u>

The accompanying notes are an integral part of this financial statement.

ELLIOTT COUNTY
RONNIE STEPHENS, COUNTY SHERIFF
SHERIFF'S SETTLEMENT - 2005 TAXES
MAY 5, 2006
(Continued)

* Commissions:

10% on	\$	10,000
4.25% on	\$	421,529
4% on	\$	648,013

** Special Taxing Districts:

Ambulance District	\$	(12)
Extension District		(3)
Soil Conservation District		(5)

Due Districts or (Refund(s) Due Sheriff)	\$	(20)
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ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT

MAY 5, 2006

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue, which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue, which are recognized when there is proper authorization. Taxes paid are uses of revenue, which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution. These requirements were met.

ELLIOTT COUNTY
NOTES TO FINANCIAL STATEMENT
MAY 5, 2006
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk – Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned to it. The Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of May 5, 2006 all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

A. Property Taxes

The real and personal property tax assessments were levied as of January 1, 2005. Property taxes were billed to finance governmental services for the year ended June 30, 2006. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 14, 2005 through May 5, 2006.

Note 4. Interest Income

The Elliott County Sheriff earned \$69 as interest income on 2005 taxes. The Sheriff distributed the appropriate amount to the school district, as required by statute, and the remainder will be used to operate the Sheriff's office.

Note 5. Sheriff's 10% Add-On Fee

The Elliott County Sheriff collected \$9,155 of 10% add-on fees allowed by KRS 134.430(3). This amount will be used to operate the Sheriff's office.

Note 6. Advertising Costs And Fees

The Elliott County Sheriff collected \$1,395 of advertising fees allowed by KRS 424.330(1) and KRS 134.440(2). The advertising fees will be used to operate the Sheriff's office.

Note 7. Unrefundable Duplicate Payments And Unexplained Receipts Should Be Escrowed

The Sheriff should deposit any unrefundable duplicate payments and unexplained receipts in an interest-bearing account. According to KRS 393.090, property is presumed abandoned after three years, after which time it is turned over to the Kentucky State Treasurer, in accordance with KRS 393.110. For the 2005 Taxes, the Sheriff had \$50 in unrefundable duplicate payments and unexplained receipts. Therefore, the Sheriff should send a written report to the Treasury Department.

COMMENT AND RECOMMENDATION

ELLIOTT COUNTY
ELLIOTT, COUNTY SHERIFF
COMMENT AND RECOMMENDATION

As of May 5, 2006

STATE LAWS AND REGULATIONS:

None.

INTERNAL CONTROL - REPORTABLE CONDITIONS:

The Sheriff's Office Lacks Adequate Segregation Of Duties

During our audit we noted the Sheriff's internal control structure lacked an adequate segregation of duties. This deficiency occurs when someone has custody over assets and the responsibility of recording financial transactions. In our judgment, this condition could have adversely affected the Sheriff's ability to record, process, summarize, and report accurate financial information. We recommend the Sheriff's Office obtain additional staff to divide the responsibilities or implement the following compensating controls that would help offset the lack of adequate segregation of duties:

- Cash recounted and deposited by the Sheriff
- The Sheriff mails disbursements
- The Sheriff or someone independent of the Sheriff's Office should prepare bank reconciliations

Sheriff's Response: None

INTERNAL CONTROL - MATERIAL WEAKNESSES:

None.

PRIOR YEAR:

The Sheriff's Office Lacks Adequate Segregation Of Duties

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND
ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

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The Honorable Charles Pennington, Elliott County Judge/Executive
Honorable Ronnie Stephens, Elliott County Sheriff
Members of the Elliott County Fiscal Court

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards

We have audited the Elliott County Sheriff's Settlement - 2005 Taxes as of May 5, 2006 and have issued our report thereon dated August 1, 2006. The Sheriff's financial statement is prepared in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Elliott County Sheriff's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statement and not to provide an opinion on the internal control over financial reporting. However, we noted a certain matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the entity's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statement. The reportable condition is described in the accompanying comment and recommendation.

- The Sheriff's Office Lacks Adequate Segregation Of Duties

A material weakness is a reportable condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements caused by error or fraud in amounts that would be material in relation to the financial statement being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we do not believe the reportable condition described above is a material weakness.

Report On Internal Control Over Financial Reporting And
On Compliance And Other Matters Based On An Audit Of The Financial
Statement Performed In Accordance With Government Auditing Standards
(Continued)

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the Elliott County Sheriff's Settlement is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instance of noncompliance or other matters that are required to be reported under Government Auditing Standards.

This report is intended solely for the information and use of management and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,

Morgan - Franklin, LLC

Morgan-Franklin, LLC

Audit fieldwork completed -
August 1, 2006